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SUBJECT: PRIVATE AIR CARRIER FAILS, STATE AIRLINE EXPANDS

¶1. Private Mozambican airline Air Corridor may not fly again as both of its Boeing 737s are grounded in South Africa with major maintenance problems. The company began operating in 2004 and suffered from several safety and maintenance incidents over the course of its existence. (Note: Embassy Maputo had prohibited USG personnel from traveling on Air Corridor until 2007. End note.) Furthermore, Aeronexus, the South African company handling Air Corridor's maintenance contract, reported that Air Corridor had no records for routine repairs and inspections of its aircraft ) reason enough for civil aviation authorities to withdraw the company's operating license. Air Corridor, which marketed its service as a "low-cost, no frills alternative" to the state-controlled airline Mozambican Airlines (LAM), never successfully penetrated Mozambique's domestic market.

¶2. (SBU) LAM's CEO Jose Viegues told the Charge recently that LAM plans to invest USD 150 million over the next three years in a modernization program that includes the acquisition of aircraft and training of pilots and maintenance technicians. Viegues said that the modernization process contemplated, amongst other initiatives, the sale of the company's products via the Internet and introduction of an automated check-in and boarding system. On April 26, LAM announced that the company had finalized a leasing agreement to bring an ex-AeroMexico Boeing 737-200 into domestic service. LAM executives have told Emboffs privately that in addition to reviewing more options on Boeing aircraft, they are also in exploratory talks with Brazil's Embraer on the purchase of smaller regional jets. Contacts from General Electric--which would provide engines for the Embraer jets--have confirmed these talks are ongoing.

¶3. (SBU) Viegues also told the Charge that LAM is prepared for a full open-skies regime within SADC countries in 2009 (the only remaining regional route subject to controls is the extremely lucrative Maputo-Johannesburg market), as the carrier has controlled costs, shed unneeded personnel and cut unprofitable intercontinental routes. He said, however, that the major hindrance to LAM's expansion was the GRM's requirement that the carrier continue to fly many unprofitable domestic routes--refueling in some remote areas was especially expensive. He said that LAM had to raise prices on money-making routes to provide the internal subsidy needed to operate on the unprofitable ones. He also noted that cargo was the most significant source of revenue for the company--not passengers--which could ultimately tip purchasing and leasing decisions in favor of Boeing's larger aircraft.

¶4. (U) COMMENT: While LAM likely used its state-owned status in the Mozambique domestic market to squelch Air Corridor's efforts to gain a foothold, Air Corridor never really posed a threat to LAM's near-monopoly. Even so, Air Corridor's departure seems to have given LAM the confidence and security it needed to embark on a fairly aggressive expansion plan by historical standards, which could bode well for U.S.

companies like Boeing and General Electric. In this environment, the GRM's professed desire to enter into open skies discussions with the USG (reftel) may portend the winds of economic change in Mozambique's civil aviation sector towards a freer, more competitive regional market. END COMMENT.
Chapman